

ORIGINAL

SUN LEISURE ESTATES UTILITIES COMPANY, INC



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TO: Jeffrey M. Michlik

Arizona Corporation Commission

2009 DEC -3 P 3: 29

From: Chuck Swysgood, President

Sun Leisure Estates Utilities Co.

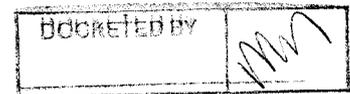
AZ CORP COMMISSION
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Arizona Corporation Commission

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DEC - 3 2009

DATE: November 30, 2009



RE: SUN LEISURE ESTATES UTILITIES COMPANY'S RESPONSE TO THE STAFF REPORT ON COMPANY'S APPLICATION FOR A PERMANENT RATE INCREASE (DOCKET NO. W-02386A-09-0308).

Mr. Michlik

On behalf of the Company, I wish to thank you and the Staff for the help and cooperation in our endeavor to put together and submit our application for a permanent rate increase as ordered by the Commission on June 13, 2008 in Decision No. 70375.

The Company, after reviewing the Staff report, has a number of areas of concern and/ or disagreement.

- Staff Report indicates in the Executive Summary in the first paragraph that the Company's current rates were effective June 9, 2000. According to our records our current rates have been in effect since October 1, 1990. Commission Decision No. 57078. Our current rates have been in effect for nineteen years.
- Staff Report recommends that we use the depreciation rates delineated in table H-1. The Company is already under an earlier order to use those rates and we are complying with that previous order. (June 13, 2008 Commission Decision No. 70981).
- Staff Report regarding the Consumer Services Section, indicates that in 2009 there were three opinions filed opposing the rate increase request. While in fact there were three opinions filed in total, the petition containing the fifteen signatures was in support of the rate increase along with one individual letter of support. There was one individual letter opposed to the increase.
- Staff Report recommends that the Company is ordered to install a storage tank of at least 65,000 gallons capacity or drill a new back-up well within one year of the effective date of this proceeding. This recommendation causes the Company to have

major concerns that this order could not be complied with, given the Staff's recommended 11.14 percent rate increase.

- During the hearing on our application for an emergency surcharge on April 7, 2008 Mr. Liu testified that based on ADEQ requirements pursuant to the Company's 2006 Water Use Data Sheet, the Company should have a minimum storage capacity of 15,459 gallons (Tr., pg. 46. Docket No. W-02386A-08-0129).
- The Company cannot understand why the Staff Report would be recommending we be ordered to install a tank with a minimum storage capacity of 65,000 gallons.
- The current storage tank was engineered and approved to supply approximately 25 additional residential units that were never constructed. The Company therefore feels the current storage tank is more than adequate for the number of customers it serves. There have been no major problems with this tank in almost thirty years.
- The Board and our customers feel that the number one priority for our community is to drill a new back-up well.

As President of the Utilities Board I would like to make a few comments related to the Staff Report:

- Our Company has operated under our current rate structure for nineteen years. In that time period costs have increased significantly.
- Staff adjusted our Statement of Income and Expense sheet disallowing our attorney's fees which resulted from our applying for an emergency surcharge to drill a new back-up well and the application for a new CC&N. The surcharge was denied by the Commission in June of 2008. The Staff Report, in disallowing these costs indicated they would not be an on-going cost.
- In June or July of 2009 we received another invoice from our attorney in the amount of approximately \$8,900 for services associated with the above mentioned items along with services rendered for reviewing our rate application. The first bill from our attorney completely depleted our reserve cash, along with approximately \$3,300 of our operating revenue. The second bill is being paid out of current operating revenue. To date we have paid \$3,100 on this current bill. This leaves a balance due of \$5,800. The Company contends these costs will be on-going.
- In March of 2009 we received a bill from our insurance company for our insurance coverage in the amount of \$1,900, an increase of \$207 over the 2008 test year cost.
- The Company also assumes that our power costs are going to increase given what we've read in the papers and the requested rate increase coming before the Commission by our power supplier.

This information is being provided because of additional costs that were not part of the test year costs. It is also in response to the Staff report recommendation of an 11.14 percent increase in our rates.

A major concern of the Company is Staff's recommendation that we be ordered to install a 65,000 gallon storage tank or drill a new back-up well within one year from the date of the order. Also, to have a copy of the Approval of Construction on file as a compliance item within the same period. Given our current financial state and with the Staff's recommended 11.14 percent rate increase, it would be unrealistic to expect us to be able to comply with this order.

The Staff Report indicates that after adjustments the Company would have an operating income of \$3,091. Even if all this projected income was available for debt retirement, which is highly unlikely, the Company feels this income is inadequate to service the debt requirements of a loan of \$25,000 or more and could possibly lead to default sometime during the course of the loan.

A large majority of our customers, all of whom have an ownership in the Utilities Company, continue to support the Board's attempts to drill a new back-up well. They voted in favor of the surcharge and agreed to the rate increase submitted by the Company.

If the Commission decides to approve the rate increase recommended by the Staff Report, the Sun Leisure Estates Utilities Company, Inc. Board of Directors would request of the Commission, that the Staff Report recommended order to install a 65,000 gallon storage tank or drill a new back-up and have a copy of the Approval of Construction with in one year of the date of the order, be removed from the final order.

Summary:

- We have been without a backup well since March 2007.
- The majority of the members of our (closed) community support drilling a new backup well and an increase in our rates to accomplish this.
- An 11.14 percent increase after nearly 20 years seems inadequate in light of current day and projected costs for utilities, services, repair parts, labor, insurance, taxes, legal fees, etc.
- Company has a financing commitment in place for a new well. However that commitment is predicated on a higher rate increase being approved in order to facilitate a more reasonable payback time period.
- The Company believes that our original rate increase application is justified.
- According to the Bureau of Labor Statistics, the CPI has increased 50.3 percent and inflation has risen 37 percent since our last rate increase nineteen years ago.
- The Company's rates as filed in our application were based upon continually increasing operating costs. In addition, Company considered the costs of drilling a backup well in our estimations for this rate increase. Company's

ability to retire a loan or accumulate adequate resources in order to drill the well in a timely manner was also considered in the application.

- **The proceedings before the Commission and the necessity to have legal counsel has depleted all of the Company's cash reserves and put a significant strain on our operating revenue.**
- **The majority of our customers support the Company's request for 100 percent increase in our rates.**
- **The Company requests that the Commission reject the Staff's recommendation of the 11.14 percent rate increase and grant the Company at least a 50 percent increase in our rates.**

In closing, I repeat my thanks to you and the Staff at the Commission for your efforts in this process.

Respectfully,



**Chuck Swysgood, President
Sun Leisure Estates Utilities Co., Inc.**